

Message Text

PAGE 01 ROME 17582 201516Z

46

ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-05 NSAE-00 RSC-01 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-02 H-01 PA-01 PRS-01 USIA-06 AGR-05 SAJ-01

/085 W

----- 125344

P R 201258Z DEC 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 8739

INFO USMISSION EC BRUSSELS

AMCONGEN MILAN

AMCONGEN NAPLES

USMISSION OECD PARIS

LIMITED OFFICIAL USE ROME 17582

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: VIEWS OF MILAN BANKERS ON CURRENT ITALIAN ECONOMIC
SITUATION

PASS TREASURY AND FRB

1. SUMMARY. DURING THREE-DAY VISIT OF TREASATT TO MILAN
DECEMBER 16-18, FOLLOWING WERE MAIN VIEWS EXPRESSED BY
MILAN BANKERS. (1) ALTHOUGH DOWNTURN IN ITALIAN PRODUCTION
AND SUBSTANTIAL RISE IN UNEMPLOYMENT IS EXPECTED IN 1975,
BANKERS DID NOT FORESEE "ECONOMIC COLLAPSE." (2) ITALIAN
EXPORT PROSPECTS APPEAR FAIRLY GOOD IN TERMS OF PRICE
COMPETITIVENESS AND IMPROVED DELIVERY SCHEDULES. (3)
INTEREST RATES IN ITALY WILL AND SHOULD COME DOWN, ALTHOUGH
BANK OF ITALY IS RESISTING ANY LARGE DECLINE. (4) U.S.
BANKS IN MILAN DO NOT ANTICIPATE THAT THEIR HOME OFFICES
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 02 ROME 17582 201516Z

WILL AGREE TO ROLL-OVER OF MUCH, IF ANY, OF ITALY'S TERM
LOAN REPAYMENTS IN 1975. END SUMMARY.

2. RECESSION: ALTHOUGH ALL BANKERS RECOGNIZED THAT

ECONOMIC DOWNTURN IN REAL TERMS HAS ALREADY BEGUN AND WILL LIKELY LAST AT LEAST UNTIL LATE 1975, MOST SEEMED RELATIVELY OPTIMISTIC THAT ITALIAN ECONOMY WOULD SOMEHOW GET THROUGH THIS DIFFICULT PERIOD. ONE BANKER FELT THAT RECESSIONARY EFFECTS WERE BEING FELT MORE IN LARGE CITIES THAN IN MEDIUM - AND SMALL-SIZED TOWNS. SOME BANKERS COULD FORESEE ECONOMIC RECOVERY BEGINNING BY LATE 1975 OR EARLY 1976. ALL STRESSED IMPORTANCE OF RECESSION IN RE-INSTILLING BETTER DISCIPLINE WITHIN ITALIAN LABOR FORCE. THEY SAID THAT DECLINE IN ABSENTEEISM HAD ALREADY BEGUN AND THAT THERE WAS SOME EVIDENCE THAT WORKER PARTICIPATION IN STRIKES WAS DECLINING. POINT WAS ALSO MADE OF RESILIENCY OF ITALIAN ECONOMY IN RE-ABSORBING UNEMPLOYED BACK INTO AGRICULTURAL SECTOR AND IN SPREADING OUT AVAILABLE WORK THROUGH SHORT WORK WEEKS.

3. EXPORT PROSPECTS: THERE WAS WIDE AGREEMENT THAT ITALIAN EXPORT PROSPECTS WERE PROMISING IN TERMS OF PRICE COMPETITIVENESS OF MOST ITALIAN GOODS AND IN TERMS OF INCREASED ABILITY TO DELIVER GOODS ON SCHEDULE AS RESULT OF DECLINE IN ABSENTEEISM AND IN LOST TIME FROM STRIKES (AND, OF COURSE, EXCESS CAPACITY). BANKERS WERE SOMEWHAT DISAPPOINTED THAT MORO GOVERNMENT HAD NOT YET IMPLEMENTED ITS PLAN TO GIVE HIGHER PRIORITY TO EXPORT CREDIT. BANKERS STRESSED NEED FOR INCREASE IN GOI CONTRIBUTION TO MEDIO CREDITO FOR DISCOUNTING EXPORT PAPER AND GRANTING INTEREST RATE SUBSIDIES. ONE BANKER FORESAW POSSIBILITY THAT BOI WOULD ENTIRELY REMOVE EXPORT CREDIT FROM CURRENT BANK CREDIT CEILINGS.

4. MONETARY CONDITIONS: CREDIT CONDITIONS AND INTEREST RATE POLICY, IN PARTICULAR, ARE NOW OBJECT OF LIVELY DEBATE. ALTHOUGH FOREIGN INTEREST RATES ARE DECLINING, LEAVING SOME ROOM FOR DROP IN ITALIAN RATES WITHOUT ELIMINATING INTEREST RATE DIFFERENTIAL, MOST BANKERS DOUBTED THAT ITALIAN RATES WOULD FALL VERY MUCH. BANKERS THOUGHT THAT TIGHT CREDIT IS HAVING DESIRED EFFECT IN REDUCING DOMESTIC LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 03 ROME 17582 201516Z

DEMAND. HOWEVER, LARGE ITALIAN BANKS ARE UNHAPPY ABOUT COMPETITION FOR DEPOSITS WHICH HAS DRIVEN INTEREST RATES ON LARGE DEPOSITS TO 15-17 PER CENT, COMPARED WITH PRIME RATE OF 19-20 PER CENT. THESE BANKERS ARGUE THAT, BECAUSE OF RESERVE REQUIREMENTS AND VARIOUS FORCED INVESTMENTS, AVERAGE RETURN ON PORTFOLIO DOES NOT ADEQUATELY COMPENSATE BANKS TO PERMIT THEM TO PAY DEPOSIT RATES AT THAT LEVEL. FURTHERMORE, THEY BELIEVE THAT HIGH INTEREST RATES ON LOANS ARE HAVING IMPORTANT INFLATIONARY EFFECT ON COSTS AND PRICES. FINALLY, SINCE BANK CREDIT IS ALREADY LIMITED BY DIRECT CONTROLS, THEY WERE NOT CONVINCED THAT RATIONING OF CREDIT THROUGH HIGH COST OF BORROWING WAS ALSO NECESSARY OR DESIRABLE.

ON OTHER HAND, THEY SAID THAT BANK OF ITALY WAS STILL RESISTING PRESSURES TO REDUCE DEPOSIT INTEREST RATES THROUGH CARTEL ARRANGEMENT OR OTHER DIRECT MEASURE. SOME BANKERS THOUGHT THAT BOI MIGHT CREATE NEW SUB-CEILINGS WITHIN GLOBAL BANK CREDIT CEILING IN ORDER TO FAVOR PRIORITY LOANS FOR EXPORTS, AGRICULTURE, CONSTRUCTION AND SOUTHERN DEVELOPMENT. IT SEEMED TO BE ASSUMED THAT FORCED INVESTMENTS IN BONDS ISSUED BY MEDIUM-TERM SPECIAL CREDIT INSTITUTES WOULD CONTINUE BEYOND END-1974.

5. REFINANCING 1975 DEBT MATURITIES. REPS FROM SEVEN U.S. BANKS WITH WHOM TREASATT SPOKE ALL TOOK STRONG INITIAL NEGATIVE POSITION WITH REGARD TO POSSIBILITY OF THEIR HEADQUARTERS' APPROVING EVEN PARTIAL MEDIUM-TERM REFINANCING OF EUROMARKET TERM LOANS WHICH WILL BEGIN TO FALL DUE IN LATTER HALF OF 1975. THEY SAID THAT THEIR BANKS WERE ALREADY FULLY LOANED UP IN ITALY. SEVERAL CITED RECENT CAUTIONARY NOTE WHICH HAD BEEN SOUNDED BY COMPTROLLER OF CURRENCY ABOUT QUALITY OF LOANS TO ITALY AND REFERENCES WERE MADE TO FRB PRESSURE ON U.S. BANKS TO RETRENCH INTERNATIONALLY, AT LEAST UNTIL THEY ARE IN POSITION TO DECREASE THEIR LOAN/EQUITY RATIOS. SEVERAL BANKERS ALSO SAID THAT BANK OF ITALY AND SOME INDIVIDUAL BORROWERS HAVE BOTH INDICATED THAT TERM LOANS WOULD BE PAID OFF ON SCHEDULE AND REFINANCING WOULD NOT BE REQUESTED. TREASATT ASKED WHETHER BANKS WOULD STILL TAKE NEGATIVE POSITION ON PARTIAL REFINANCING LATE IN 1975 IF ITALY'S BALANCE OF PAYMENTS HAD CONTINUED TO IMPROVE, NEW "SAFETY NET" RECYCLING FACILITY HAD BEEN ESTABLISHED IN OECD, AND THERE WERE INDICATIONS THAT LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 04 ROME 17582 201516Z

SOME OF THEIR COMPETITORS WERE DISPOSED TO GRANT PARTIAL ROLL-OVER. EVEN UNDER THESE CIRCUMSTANCES, BANKERS WERE STILL INCLINED TO TAKE RATHER NEGATIVE VIEW OF ANY REFINANCING PROSPECTS, ALTHOUGH ONE OR TWO OF LARGER BANKS WERE SOMEWHAT MORE POSITIVE.

6. COMMENT. DESPITE RATHER APOCALYPTIC REPORTS IN FOREIGN PRESS AND, TO LESSER EXTENT, IN ITALIAN PRESS ABOUT SERIOUS ECONOMIC RECESSION AND PROSPECTS OF VERY HIGH UNEMPLOYMENT IN 1975, TWELVE BANKERS (FIVE ITALIAN AND SEVEN U.S.) WERE, RATHER SURPRISINGLY, LESS PESSIMISTIC THAN TREASATT HAD ANTICIPATED. BANKERS ALL SEEMED TO RECOGNIZE SERIOUSNESS OF PROJECTED DECLINE IN PRODUCTION AND RISE IN UNEMPLOYMENT BUT WERE HOPEFUL ABOUT LONGER-TERM PROSPECT OF MORE DISCIPLINED LABOR FORCE. OF COURSE, BANKS ARE IN LESS EXPOSED POSITION THAN ITALIAN BUSINESS OR LABOR, SO CAN TAKE MORE LOFTY VIEW OF RECESSION. COMMENTS ON ITALIAN EXPORT PROSPECTS WERE RATHER FAVORABLE, ALTHOUGH IT IS RECOGNIZED THAT ITALY'S MAJOR MARKETS MAY NOT GROW VERY FAST NEXT YEAR. DEBATE BETWEEN BIG ITALIAN COMMERCIAL BANKS AND BANK OF ITALY

ON INTEREST RATE POLICY IS SOMEWHAT SURPRISING, IN THAT
COMMERCIAL BANKS SEEM TO PREFER DIRECT CONTROLS, WHILE BOI
FAVORS GREATER USE OF MARKET FORCES. FINALLY, TREASATT WAS
SOMEWHAT SURPRISED AT EXTENT OF NEGATIVE REACTION AMONG U.S.
BANKS CONCERNING POSSIBILITY OF EVEN PARTIAL REFINANCING
OF MEDIUM-TERM COMPENSATORY EUROLOANS WHICH BEGIN TO FALL
DUE NEXT YEAR. (PERHAPS, IN FINAL ANALYSIS, PRESSURE FROM
ITALIAN AUTHORITIES OR FROM OTHER FOREIGN CREDITORS WILL
RESULT IN MORE SYMPATHETIC VIEW BY LAST HALF 1975.)
IN ANY CASE, IT IS NOT SURPRISING THAT BOI SHOULD PREFER TO
CONTINUE TO RE-ESTABLISH ITS FOREIGN PRIVATE CREDIT RATING
BY MEETING ITS COMMITMENTS ON SCHEDULE, PROVIDED IT IS ABLE
TO FINANCE ITS 1975 DEFICIT WITH PUBLIC CREDITS. VOLPE

LIMITED OFFICIAL USE

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 27 JUL 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, EXPORTS, INTEREST RATES, BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME17582
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D740370-1181
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741276/abbrzblr.tel
Line Count: 178
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2002 by boyleja>; APPROVED <24 MAR 2003 by CunninFX>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: VIEWS OF MILAN BANKERS ON CURRENT ITALIAN ECONOMIC SITUATION
TAGS: EFIN, IT
To: STATE INFO EC BRUSSELS
AMCONGEN MILAN
AMCONGEN NAPLES
OECD PARIS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005